

CONFERENCE COMMITTEE REPORT DIGEST FOR ESB 501

Citations Affected: IC 26-1.

Synopsis: Uniform commercial code revisions. Defines "record" and amends the definitions of "bank" for purposes of the Uniform Commercial Code (UCC). Amends the definition of "good faith" as it applies to certain provisions of the UCC. (Adopts the most recent revisions to the parts of the UCC concerning negotiable instruments and bank deposits and collections, including the following: (1) Provides that a person who has lost possession of an instrument but acquired ownership of the instrument directly or indirectly from a person entitled to enforce it may enforce the lost instrument. (2) Specifies the conditions under which payment of an instrument is discharged, if the instrument has been transferred to another person. (3) Adds provisions concerning telephonically generated checks, in which a consumer authorizes a check to be issued in his or her name over the telephone to pay an obligation. (4) Adds provisions concerning the rights of principal and secondary obligors. (5) Provides that the omission of certain disclosure statements in an instrument used in a consumer transaction is not a defense against enforcement of the instrument. Makes conforming amendments. **(This conference committee report is the same as the Senate-passed version of SB 501 (printed February 6, 2009).)**

Effective: July 1, 2010.

Adopted

Rejected

CONFERENCE COMMITTEE REPORT

MR. SPEAKER:

Your Conference Committee appointed to confer with a like committee from the Senate upon Engrossed House Amendments to Engrossed Senate Bill No. 501 respectfully reports that said two committees have conferred and agreed as follows to wit:

that the Senate recede from its dissent from all House amendments and that the Senate now concur in all House amendments to the bill and that the bill be further amended as follows:

- 1 Delete everything after the enacting clause and insert the following:
- 2 SECTION 1. IC 26-1-1-201, AS AMENDED BY P.L.143-2007,
- 3 SECTION 3, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
- 4 JULY 1, 2010]: Sec. 201. Subject to additional definitions contained
- 5 in IC 26-1-2 through IC 26-1-10 which are applicable to specific
- 6 provisions, and unless the context otherwise requires, in IC 26-1:
- 7 (1) "Action" in the sense of a judicial proceeding includes
- 8 recoupment, counterclaim, setoff, suit in equity, and any other
- 9 proceedings in which rights are determined.
- 10 (2) "Aggrieved party" means a party entitled to resort to a remedy.
- 11 (3) "Agreement" means the bargain of the parties in fact as found
- 12 in their language or by implication from other circumstances
- 13 including course of dealing or usage of trade or course of
- 14 performance as provided in IC 26-1-1-205. Whether an agreement
- 15 has legal consequences is determined by the provisions of
- 16 IC 26-1, if applicable; otherwise by the law of contracts
- 17 (IC 26-1-1-103). (Compare "Contract".)
- 18 (4) "Bank" means ~~any~~ a person engaged in the business of
- 19 banking **and includes a savings bank, savings and loan**
- 20 **association, credit union, and trust company.**
- 21 (5) "Bearer" means the person:

- 1 (A) in control of a negotiable electronic document of title; or
 2 (B) in possession of a negotiable instrument, a negotiable
 3 tangible document of title, or a certificated security payable to
 4 bearer or endorsed in blank.
- 5 (6) "Bill of lading" means a document of title evidencing the
 6 receipt of goods for shipment issued by a person engaged in the
 7 business of directly or indirectly transporting or forwarding
 8 goods. The term does not include a warehouse receipt. The term
 9 includes an airbill. "Airbill" means a document serving for air
 10 transportation as a bill of lading does for marine or rail
 11 transportation, and includes an air consignment note or air
 12 waybill.
- 13 (7) "Branch" includes a separately incorporated foreign branch of
 14 a bank.
- 15 (8) "Burden of establishing" a fact means the burden of
 16 persuading the triers of fact that the existence of the fact is more
 17 probable than its nonexistence.
- 18 (9) "Buyer in ordinary course of business" means a person that
 19 buys goods in good faith without knowledge that the sale violates
 20 the rights of another person in the goods, and in the ordinary
 21 course from a person, other than a pawnbroker, in the business of
 22 selling goods of that kind. A person buys goods in the ordinary
 23 course of business if the sale to the person comports with the
 24 usual or customary practices in the kind of business in which the
 25 seller is engaged or with the seller's own usual or customary
 26 practices. A person that sells oil, gas, or other minerals at the
 27 wellhead or minehead is a person in the business of selling goods
 28 of that kind. A buyer in ordinary course of business may buy for
 29 cash, by exchange of other property, or on secured or unsecured
 30 credit, and may require goods or documents of title under a
 31 preexisting contract for sale. Only a buyer that takes possession
 32 of the goods or has a right to recover the goods from that seller
 33 under IC 26-1-2 may be a buyer in ordinary course of business. A
 34 person that acquires goods in a transfer in bulk or as security for
 35 or total or partial satisfaction of a money debt is not a buyer in
 36 ordinary course of business.
- 37 (10) "Conspicuous". A term or clause is conspicuous when it is so
 38 written that a reasonable person against whom it is to operate
 39 ought to have noticed it. A printed heading in capitals (as:
 40 NONNEGOTIABLE BILL OF LADING) is conspicuous.
 41 Language in the body of a form is conspicuous if it is in larger or
 42 other contrasting type or color. But in a telegram any stated term
 43 is conspicuous. Whether a term or clause is conspicuous or not is
 44 for decision by the court.
- 45 (11) "Contract" means the total legal obligation which results
 46 from the parties' agreement as affected by this Act and any other
 47 applicable rules of law. (Compare "Agreement".)
- 48 (12) "Creditor" includes a general creditor, a secured creditor, a
 49 lien creditor and any representative of creditors, including an
 50 assignee for the benefit of creditors, a trustee in bankruptcy, a
 51 receiver in equity, and an executor or administrator of an

insolvent debtor's or assignor's estate.

(13) "Defendant" includes a person in the position of defendant in a cross-action or counterclaim.

(14) "Delivery" means the following:

(A) With respect to an electronic document of title, voluntary transfer of control.

(B) With respect to instruments, tangible documents of title, chattel paper, or certificated securities, voluntary transfer of possession.

(15) "Document of title" means a record that:

(A) in the regular course of business or financing, is treated as adequately evidencing that the person in possession or control of the record is entitled to receive, control, hold, and dispose of the record and the goods it covers; and

(B) purports to be issued by or addressed to a bailee and purports to cover goods in the bailee's possession which are either identified or are fungible portions of an identified mass.

The term includes a bill of lading, transport document, dock warrant, dock receipt, warehouse receipt, or order for delivery of goods. An electronic document of title means a document of title evidenced by a record consisting of information stored in an electronic medium. A tangible document of title means a document of title evidenced by a record consisting of information that is inscribed on a tangible medium.

(16) "Fault" means wrongful act, omission, or breach.

(17) "Fungible" with respect to goods or securities means goods or securities of which any unit is, by nature or usage of trade, the equivalent of any other like unit. Goods which are not fungible shall be deemed fungible for the purposes of IC 26-1 to the extent that under a particular agreement or document unlike units are treated as equivalents.

(18) "Genuine" means free of forgery or counterfeiting.

(19) "Good faith", **except as otherwise provided by IC 26-1-4 or IC 26-1-5.1**, means honesty in fact ~~in the conduct or transaction concerned~~; **and the observance of reasonable commercial standards of fair dealing.**

(20) "Holder" means:

(A) the person in possession of a negotiable instrument that is payable either to bearer or to an identified person if the identified person is in possession of the instrument;

(B) the person in possession of a negotiable tangible document of title if the goods are deliverable either to bearer or to the order of the person in possession; or

(C) the person in control of a negotiable electronic document of title.

(21) To "honor" is to pay or to accept and pay or where a credit so engages to purchase or discount a draft complying with the terms of the credit.

(22) "Insolvency proceedings" includes any assignment for the benefit of creditors or other proceedings intended to liquidate or rehabilitate the estate of the person involved.

(23) A person is "insolvent" who either has ceased to pay the person's debts in the ordinary course of business or cannot pay the person's debts as they become due or is insolvent within the meaning of the federal bankruptcy law.

(24) "Money" means a medium of exchange authorized or adopted by a domestic or foreign government and includes a monetary unit of account established by an intergovernmental organization or by agreement between two (2) or more nations.

(25) A person has "notice" of a fact when:

- (a) the person has actual knowledge of it;
- (b) the person has received a notice or notification of it; or
- (c) from all the facts and circumstances known to the person at the time in question, the person has reason to know that it exists.

A person "knows" or has "knowledge" of a fact when the person has actual knowledge of it. "Discover" or "learn" or a word or phrase of similar import refers to knowledge rather than to reason to know. The time and circumstances under which a notice or notification may cease to be effective are not determined by IC 26-1.

(26) A person "notifies" or "gives" a notice or notification to another by taking such steps as may be reasonably required to inform the other in ordinary course whether or not such other actually comes to know of it. A person "receives" a notice or notification when:

- (a) it comes to the person's attention; or
- (b) it is duly delivered at the place of business through which the contract was made or at any other place held out by the person as the place for receipt of such communications.

(27) Notice, knowledge, or a notice of notification received by an organization is effective for a particular transaction from the time when it is brought to the attention of the individual conducting that transaction and, in any event, from the time when it would have been brought to the person's attention if the organization had exercised due diligence. An organization exercises due diligence if it maintains reasonable routines for communicating significant information to the person conducting the transaction and there is reasonable compliance with the routines. Due diligence does not require an individual acting for the organization to communicate information unless such communication is part of the person's regular duties or unless the person has reason to know of the transaction and that the transaction would be materially affected by the information.

(28) "Organization" includes a corporation, government or governmental subdivision or agency, business trust, estate, trust, partnership or association, two (2) or more persons having a joint or common interest, or any other legal or commercial entity.

(29) "Party", as distinct from "third party", means a person who has engaged in a transaction or made an agreement within IC 26-1.

(30) "Person" includes an individual or an organization. (See

1 IC 26-1-1-102.)

2 (31) "Presumption" or "presumed" means that the trier of fact
3 must find the existence of the fact presumed unless and until
4 evidence is introduced which would support a finding of its
5 nonexistence.

6 (32) "Purchase" includes taking by sale, discount, negotiation,
7 mortgage, pledge, lien, security interest, issue or reissue, gift, or
8 any other voluntary transaction creating an interest in property.

9 (33) "Purchaser" means a person who takes by purchase.

10 (33a) "Registered mail" includes certified mail.

11 **(33b) "Record", except as used in IC 26-1-1.5-2 and**
12 **IC 26-1-2.1-309, means information that is inscribed on a**
13 **tangible medium or that is stored in an electronic or other**
14 **medium and is retrievable in perceivable form.**

15 (34) "Remedy" means any remedial right to which an aggrieved
16 party is entitled with or without resort to a tribunal.

17 (35) "Representative" includes an agent, an officer of a
18 corporation or association, and a trustee, executor, or
19 administrator of an estate, or any other person empowered to act
20 for another.

21 (36) "Rights" includes remedies.

22 (37) "Security interest" means an interest in personal property or
23 fixtures which secures payment or performance of an obligation.
24 The term also includes any interest of a consignor and a buyer of
25 accounts, chattel paper, a payment intangible, or a promissory
26 note in a transaction that is subject to IC 26-1-9.1. The special
27 property interest of a buyer of goods on identification of such
28 goods to a contract for sale under IC 26-1-2-401 is not a security
29 interest, but a buyer may also acquire a security interest by
30 complying with IC 26-1-9.1. Except as otherwise provided in
31 IC 26-1-2-505, the right of a seller or lessor of goods under
32 IC 26-1-2 or IC 26-1-2.1 to retain or acquire possession of the
33 goods is not a "security interest", but a seller or lessor may also
34 acquire a "security interest" by complying with IC 26-1-9.1. The
35 retention or reservation of title by a seller of goods
36 notwithstanding shipment or delivery to the buyer (IC
37 26-1-2-401) is limited in effect to a reservation of a "security
38 interest". Whether a transaction creates a lease or security interest
39 is determined by the facts of each case. However, a transaction
40 creates a security interest if the consideration the lessee is to pay
41 the lessor for the right to possession and use of the goods is an
42 obligation for the term of the lease not subject to termination by
43 the lessee and:

44 (a) the original term of the lease is equal to or greater than the
45 remaining economic life of the goods;

46 (b) the lessee is bound to renew the lease for the remaining
47 economic life of the goods or is bound to become the owner of
48 the goods;

49 (c) the lessee has an option to renew the lease for the
50 remaining economic life of the goods for no additional
51 consideration or nominal additional consideration upon

compliance with the lease agreement; or
 (d) the lessee has an option to become the owner of the goods for no additional consideration or nominal additional consideration upon compliance with the lease agreement.

A transaction does not create a security interest merely because it provides that:

- (a) the present value of the consideration the lessee is obligated to pay the lessor for the right to possession and use of the goods is substantially equal to or is greater than the fair market value of the goods at the time the lease is entered into;
- (b) the lessee assumes risk of loss of the goods, or agrees to pay taxes, insurance, filing, recording, or registration fees, or service or maintenance costs with respect to the goods;
- (c) the lessee has an option to renew the lease or to become the owner of the goods;
- (d) the lessee has an option to renew the lease for a fixed rent that is equal to or greater than the reasonably predictable fair market rent for the use of the goods for the term of the renewal at the time the option is to be performed; or
- (e) the lessee has an option to become the owner of the goods for a fixed price that is equal to or greater than the reasonably predictable fair market value of the goods at the time the option is to be performed.

For purposes of this subsection:

- (x) Additional consideration is not nominal if:
 - (i) when the option to renew the lease is granted to the lessee the rent is stated to be the fair market rent for the use of the goods for the term of the renewal determined at the time the option is to be performed; or
 - (ii) when the option to become the owner of the goods is granted to the lessee the price is stated to be the fair market value of the goods determined at the time the option is to be performed.

Additional consideration is nominal if it is less than the lessee's reasonably predictable cost of performing under the lease agreement if the option is not exercised.

(y) "Reasonably predictable" and "remaining economic life of the goods" are to be determined with reference to the facts and circumstances at the time the transaction is entered into.

(z) "Present value" means the amount as of a date certain of one (1) or more sums payable in the future, discounted to the date certain. The discount is determined by the interest rate specified by the parties if the rate is not manifestly unreasonable at the time the transaction is entered into. Otherwise, the discount is determined by a commercially reasonable rate that takes into account the facts and circumstances of each case at the time the transaction was entered into.

(38) "Send" in connection with any writing or notice means to deposit in the mail or deliver for transmission by any other usual means of communication with postage or cost of transmission

provided for and properly addressed and, in the case of an instrument, to an address specified thereon or otherwise agreed or, if there be none, to any address reasonable under the circumstances. The receipt of any writing or notice within the time at which it would have arrived if properly sent has the effect of a proper sending.

(39) "Signed" includes any symbol executed or adopted by a party with present intention to authenticate a writing.

(40) "Surety" includes guarantor.

(41) "Telegram" includes a message transmitted by radio, teletype, cable, any mechanical method of transmission, or the like.

(42) "Term" means that portion of an agreement which relates to a particular matter.

(43) "Unauthorized" signature means one made without actual, implied, or apparent authority and includes a forgery.

(44) "Value". Except as otherwise provided with respect to negotiable instruments and bank collections (IC 26-1-3.1-303, IC 26-1-4-208, and IC 26-1-4-209) a person gives value for rights if the person acquires them:

(a) in return for a binding commitment to extend credit or for the extension of immediately available credit whether or not drawn upon and whether or not a chargeback is provided for in the event of difficulties in collection;

(b) as security for or in total or partial satisfaction of a preexisting claim;

(c) by accepting delivery pursuant to a preexisting contract for purchase; or

(d) generally, in return for any consideration sufficient to support a simple contract.

(45) "Warehouse receipt" means a document of title issued by a person engaged in the business of storing goods for hire.

(46) "Written" or "writing" includes printing, typewriting, or any other intentional reduction to tangible form.

SECTION 2. IC 26-1-3.1-103 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 103. (a) In IC 26-1-3.1:

(1) "Acceptor" means a drawee who has accepted a draft.

(2) "Consumer account" means an account established by an individual primarily for personal, family, or household purposes.

(3) "Consumer transaction" means a transaction in which an individual incurs an obligation primarily for personal, family, or household purposes.

~~(2)~~ (4) "Drawee" means a person ordered in a draft to make payment.

~~(3)~~ (5) "Drawer" means a person who signs or is identified in a draft as a person ordering payment.

~~(4)~~ (6) "Good faith" means honesty in fact and the observance of reasonable commercial standards of fair dealing.

~~(5)~~ (7) "Maker" means a person who signs or is identified in a note as a person undertaking to pay.

~~(6)~~ (8) "Order" means a written instruction to pay money signed by the person giving the instruction. The instruction may be addressed to any person, including the person giving the instruction, or to one (1) or more persons jointly or in the alternative but not in succession. An authorization to pay is not an order unless the person authorized to pay is also instructed to pay.

~~(7)~~ (9) "Ordinary care" in the case of a person engaged in business means observance of reasonable commercial standards prevailing in the area in which the person is located, with respect to the business in which the person is engaged. In the case of a bank that takes an instrument for processing for collection or payment by automated means, reasonable commercial standards do not require the bank to examine the instrument if the failure to examine does not violate the bank's prescribed procedures and the bank's procedures do not vary unreasonably from general banking usage not disapproved by IC 26-1-3.1 or IC 26-1-4.

~~(8)~~ (10) "Party" means a party to an instrument.

(11) "Principal obligor", with respect to an instrument, means the accommodated party or any other party to the instrument against whom a secondary obligor has recourse under this article.

~~(9)~~ (12) "Promise" means a written undertaking to pay money signed by the person undertaking to pay. An acknowledgment of an obligation by the obligor is not a promise unless the obligor also undertakes to pay the obligation.

~~(10)~~ (13) "Prove" with respect to a fact means to meet the burden of establishing the fact (IC 26-1-1-201(8)).

~~(11)~~ (14) "Remitter" means a person who purchases an instrument from its issuer if the instrument is payable to an identified person other than the purchaser.

(15) "Remotely-created consumer item" means an item that is drawn on a consumer account, is not created by the payor bank, and does not bear a handwritten signature purporting to be the signature of the drawer.

(16) "Secondary obligor", with respect to an instrument, means:

(A) an endorser or an accommodation party;

(B) a drawer having the obligation described in IC 26-1-3.1-414(d); or

(C) any other party to the instrument that has recourse against another party to the instrument under IC 26-1-3.1-116(b).

(b) Other definitions applying to IC 26-1-3.1 and the sections in which they appear are:

"Acceptance". IC 26-1-3.1-409.

"Accommodated party". IC 26-1-3.1-419.

"Accommodation party". IC 26-1-3.1-419.

"Alteration". IC 26-1-3.1-407.

"Anomalous endorsement". IC 26-1-3.1-205.

"Blank endorsement". IC 26-1-3.1-205.

"Cashier's check". IC 26-1-3.1-104.

- 1 "Certificate of deposit". IC 26-1-3.1-104.
- 2 "Certified check". IC 26-1-3.1-409.
- 3 "Check". IC 26-1-3.1-104.
- 4 "Consideration". IC 26-1-3.1-303.
- 5 "Draft". IC 26-1-3.1-104.
- 6 "Holder in due course". IC 26-1-3.1-302.
- 7 "Incomplete instrument". IC 26-1-3.1-115.
- 8 "Endorsement". IC 26-1-3.1-204.
- 9 "Endorser". IC 26-1-3.1-204.
- 10 "Instrument". IC 26-1-3.1-104.
- 11 "Issue". IC 26-1-3.1-105.
- 12 "Issuer". IC 26-1-3.1-105.
- 13 "Negotiable instrument". IC 26-1-3.1-104.
- 14 "Negotiation". IC 26-1-3.1-201.
- 15 "Note". IC 26-1-3.1-104.
- 16 "Payable at a definite time". IC 26-1-3.1-108.
- 17 "Payable on demand". IC 26-1-3.1-108.
- 18 "Payable to bearer". IC 26-1-3.1-109.
- 19 "Payable to order". IC 26-1-3.1-109.
- 20 "Payment". IC 26-1-3.1-602.
- 21 "Person entitled to enforce". IC 26-1-3.1-301.
- 22 "Presentment". IC 26-1-3.1-501.
- 23 "Reacquisition". IC 26-1-3.1-207.
- 24 "Special endorsement". IC 26-1-3.1-205.
- 25 "Teller's check". IC 26-1-3.1-104.
- 26 "Transfer of an instrument". IC 26-1-3.1-203.
- 27 "Traveler's check". IC 26-1-3.1-104.
- 28 "Value". IC 26-1-3.1-303.
- 29 (c) The following definitions in other IC 26-1-4 apply to
- 30 IC 26-1-3.1:
- 31 ~~"Bank". IC 26-1-4-105.~~
- 32 "Banking day". IC 26-1-4-104.
- 33 "Clearing house". IC 26-1-4-104.
- 34 "Collecting bank". IC 26-1-4-105.
- 35 "Depository bank". IC 26-1-4-105.
- 36 "Documentary draft". IC 26-1-4-104.
- 37 "Intermediary bank". IC 26-1-4-105.
- 38 "Item". IC 26-1-4-104.
- 39 "Payor bank". IC 26-1-4-105.
- 40 "Suspends payments". IC 26-1-4-104.
- 41 (d) In addition, IC 26-1-1 contains general definitions and principles
- 42 of construction and interpretation applicable throughout IC 26-1-3.1.
- 43 SECTION 3. IC 26-1-3.1-106 IS AMENDED TO READ AS
- 44 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 106. (a) Except as
- 45 provided in this section, for the purposes of IC 26-1-3.1-104(a), a
- 46 promise or order is unconditional unless it states:
- 47 (1) an express condition to payment;
- 48 (2) that the promise or order is subject to or governed by another
- 49 ~~writing~~; **record**; or
- 50 (3) that rights or obligations with respect to the promise or order
- 51 are stated in another ~~writing~~; **record**.

1 A reference to another ~~writing~~ **record** does not of itself make the
2 promise or order conditional.

3 (b) A promise or order is not made conditional:

4 (1) by a reference to another ~~writing~~ **record** for a statement of
5 rights with respect to collateral, prepayment, or acceleration; or

6 (2) because payment is limited to resort to a particular fund or
7 source.

8 (c) If a promise or order requires, as a condition to payment, a
9 countersignature by a person whose specimen signature appears on the
10 promise or order, the condition does not make the promise or order
11 conditional for the purposes of IC 26-1-3.1-104(a). If the person whose
12 specimen signature appears on an instrument fails to countersign the
13 instrument, the failure to countersign is a defense to the obligation of
14 the issuer, but the failure does not prevent a transferee of the
15 instrument from becoming a holder of the instrument.

16 (d) If a promise or order at the time it is issued or first comes into
17 possession of a holder contains a statement, required by applicable
18 statutory or administrative law, to the effect that the rights of a holder
19 or transferee are subject to claims or defenses that the issuer could
20 assert against the original payee, the promise or order is not thereby
21 made conditional for the purposes of IC 26-1-3.1-104(a), but if the
22 promise or order is an instrument, there cannot be a holder in due
23 course of the instrument.

24 SECTION 4. IC 26-1-3.1-116 IS AMENDED TO READ AS
25 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 116. (a) Except as
26 otherwise provided in the instrument, two (2) or more persons who
27 have the same liability on an instrument as makers, drawers, acceptors,
28 endorsers who endorse as joint payees, or anomalous endorsers are
29 jointly and severally liable in the capacity in which they sign.

30 (b) Except as provided in ~~IC 26-1-3.1-419(c)~~ **IC 26-1-3.1-419(f)** or
31 by agreement of the affected parties, a party having joint and several
32 liability who pays the instrument is entitled to receive from any party
33 having the same joint and several liability contribution in accordance
34 with applicable law.

35 ~~(c) Discharge of one (1) party having joint and several liability by~~
36 ~~a person entitled to enforce the instrument does not affect the right~~
37 ~~under subsection (b) of a party having the same joint and several~~
38 ~~liability to receive contribution from the party discharged.~~

39 SECTION 5. IC 26-1-3.1-119 IS AMENDED TO READ AS
40 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 119. In an action for
41 breach of an obligation for which a third person is answerable over
42 pursuant to IC 26-1-3.1 or IC 26-1-4, the defendant may give the third
43 person ~~written~~ notice of the litigation **in a record**, and the person
44 notified may then give similar notice to any other person who is
45 answerable over. If the notice states:

46 (1) that the person notified may come in and defend; and

47 (2) that failure to do so will bind the person notified in an action
48 later brought by the person giving the notice as to any
49 determination of fact common to the two (2) litigations;

50 the person notified is so bound unless after reasonable receipt of the
51 notice the person notified does come in and defend.

SECTION 6. IC 26-1-3.1-305 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 305. (a) Except as ~~stated in subsection (b)~~, **otherwise provided in this section**, the right to enforce the obligation of a party to pay an instrument is subject to the following:

(1) a defense of the obligor based on:

(A) infancy of the obligor to the extent it is a defense to a simple contract;

(B) duress, lack of legal capacity, or illegality of the transaction which, under other law, nullifies the obligation of the obligor;

(C) fraud that induced the obligor to sign the instrument with neither knowledge nor reasonable opportunity to learn of its character or its essential terms; or

(D) discharge of the obligor in insolvency proceedings;

(2) a defense of the obligor stated in another section of IC 26-1-3.1 or a defense of the obligor that would be available if the person entitled to enforce the instrument were enforcing a right to payment under a simple contract; and

(3) a claim in recoupment of the obligor against the original payee of the instrument if the claim arose from the transaction that gave rise to the instrument, but the claim of the obligor may be asserted against a transferee of the instrument only to reduce the amount owing on the instrument at the time the action is brought.

(b) The right of a holder in due course to enforce the obligation of a party to pay the instrument is subject to defenses of the obligor stated in subsection (a)(1), but is not subject to defenses of the obligor stated in subsection (a)(2) or claims in recoupment stated in subsection (a)(3) against a person other than the holder.

(c) Except as stated in subsection (d), in an action to enforce the obligation of a party to pay the instrument, the obligor may not assert against the person entitled to enforce the instrument a defense, claim in recoupment, or claim to the instrument (IC 26-1-3.1-306) of another person, but the other person's claim to the instrument may be asserted by the obligor if the other person is joined in the action and personally asserts the claim against the person entitled to enforce the instrument. An obligor is not obliged to pay the instrument if the person seeking enforcement of the instrument does not have rights of a holder in due course and the obligor proves that the instrument is a lost or stolen instrument.

(d) In an action to enforce the obligation of an accommodation party to pay an instrument, the accommodation party may assert against the person entitled to enforce the instrument any defense or claim in recoupment under subsection (a) that the accommodated party could assert against the person entitled to enforce the instrument, except the defenses of discharge in insolvency proceedings, infancy, and lack of legal capacity.

(e) In a consumer transaction, if law other than this article requires that an instrument include a statement to the effect that the rights of a holder or transferee are subject to a claim or defense that the issuer could assert against the original payee, and the

instrument does not include such a statement:

- (1) the instrument has the same effect as if the instrument included such a statement;
- (2) the issuer may assert against the holder or transferee all claims and defenses that would have been available if the instrument included such a statement; and
- (3) the extent to which claims may be asserted against the holder or transferee is determined as if the instrument included such a statement.

(f) This section is subject to law other than this article that establishes a different rule for consumer transactions.

SECTION 7. IC 26-1-3.1-309 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 309. (a) A person not in possession of an instrument is entitled to enforce the instrument if:

(1) the person ~~was in possession of the instrument and seeking to enforce the instrument:~~

(A) ~~was~~ entitled to enforce it ~~the instrument~~ when loss of possession occurred; or

(B) ~~has directly or indirectly acquired ownership of the instrument from a person who was entitled to enforce the instrument when loss of possession occurred;~~

(2) the loss of possession was not the result of a transfer by the person or a lawful seizure; and

(3) the person cannot reasonably obtain possession of the instrument because the instrument was destroyed, its whereabouts cannot be determined, or it is in the wrongful possession of an unknown person or a person that cannot be found or is not amenable to service of process.

(b) A person seeking enforcement of an instrument under subsection (a) must prove the terms of the instrument and the person's right to enforce the instrument. If that proof is made, IC 26-1-3.1-308 applies to the case as if the person seeking enforcement had produced the instrument. The court may not enter judgment in favor of the person seeking enforcement unless it finds that the person required to pay the instrument is adequately protected against loss that might occur by reason of a claim by another person to enforce the instrument. Adequate protection may be provided by any reasonable means.

SECTION 8. IC 26-1-3.1-312 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 312. (a) In this section:

(1) "Check" means a cashier's check, teller's check, or certified check.

(2) "Claimant" means a person who claims the right to receive the amount of a cashier's check, teller's check, or certified check that was lost, destroyed, or stolen.

(3) "Declaration of loss" means a ~~written~~ statement, made **in a record** under penalty of perjury, to the effect that (i) the declarer lost possession of a check, (ii) the declarer is the drawer or payee of the check, in the case of a certified check, or the remitter or payee of the check, in the case of a cashier's check or teller's check, (iii) the loss of possession was not the result of a transfer by the declarer or a lawful seizure, and (iv) the declarer cannot

1 reasonably obtain possession of the check because the check was
 2 destroyed, its whereabouts cannot be determined, or it is in the
 3 wrongful possession of an unknown person or a person that
 4 cannot be found or is not amenable to service of process.

5 (4) "Obligated bank" means the issuer of a cashier's check or
 6 teller's check or the acceptor of a certified check.

7 (b) A claimant may assert a claim to the amount of a check by a
 8 communication to the obligated bank describing the check with
 9 reasonable certainty and requesting payment of the amount of the
 10 check if (i) the claimant is the drawer or payee of a certified check or
 11 the remitter or payee of a cashier's check or teller's check, (ii) the
 12 communication contains or is accompanied by a declaration of loss of
 13 the claimant with respect to the check, (iii) the communication is
 14 received at a time and in a manner affording the bank a reasonable time
 15 to act on it before the check is paid, and (iv) the claimant provides
 16 reasonable identification if requested by the obligated bank. Delivery
 17 of a declaration of loss is a warranty of the truth of the statements made
 18 in the declaration. If a claim is asserted in compliance with this
 19 subsection, the following rules apply:

20 (1) The claim becomes enforceable at the later of (i) the time the
 21 claim is asserted, or (ii) ninety (90) days after the date of the
 22 check, in the case of a cashier's check or teller's check, or ninety
 23 (90) days after the date of the acceptance, in the case of a certified
 24 check.

25 (2) Until the claim becomes enforceable, the claim has no legal
 26 effect and the obligated bank may pay the check or, in the case of
 27 a teller's check, may permit the drawee to pay the check. Payment
 28 to a person entitled to enforce the check discharges all liability of
 29 the obligated bank with respect to the check.

30 (3) If the claim becomes enforceable before the check is presented
 31 for payment, the obligated bank is not obliged to pay the check.

32 (4) When the claim becomes enforceable, the obligated bank
 33 becomes obliged to pay the amount of the check to the claimant
 34 if payment of the check has not been made to a person entitled to
 35 enforce the check. Subject to IC 26-1-4-302(a)(1), payment to the
 36 claimant discharges all liability of the obligated bank with respect
 37 to the check.

38 (c) If the obligated bank pays the amount of the check to a claimant
 39 under subsection (b)(4) and the check is presented for payment by a
 40 person having rights of a holder in due course, the claimant is obliged
 41 to (i) refund the payment to the obligated bank if the check is paid, or
 42 (ii) pay the amount of the check to the person having rights of a holder
 43 in due course if the check is dishonored.

44 (d) If a claimant has the right to assert a claim under subsection (b)
 45 and is also a person entitled to enforce a cashier's check, teller's check,
 46 or certified check which is lost, destroyed, or stolen, the claimant may
 47 assert rights with respect to the check either under this section or
 48 IC 26-1-3.1-309.

49 SECTION 9. IC 26-1-3.1-416 IS AMENDED TO READ AS
 50 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 416. (a) A person who
 51 transfers an instrument for consideration warrants to the transferee and,

1 if the transfer is by endorsement, to any subsequent transferee that:

- 2 (1) the warrantor is a person entitled to enforce the instrument;
- 3 (2) all signatures on the instrument are authentic and authorized;
- 4 (3) the instrument has not been altered;
- 5 (4) the instrument is not subject to a defense or claim in
- 6 recoupment of any party which can be asserted against the
- 7 warrantor; ~~and~~
- 8 (5) the warrantor has no knowledge of any insolvency proceeding
- 9 commenced with respect to the maker or acceptor or, in the case
- 10 of an unaccepted draft, the drawer; **and**

11 **(6) with respect to a remotely-created consumer item, the**
 12 **person on whose account the item is drawn authorized the**
 13 **issuance of the item in the amount for which the item is**
 14 **drawn.**

15 (b) A person to whom the warranties under subsection (a) are made
 16 and who took the instrument in good faith may recover from the
 17 warrantor as damages for breach of warranty an amount equal to the
 18 loss suffered as a result of the breach, but not more than the amount of
 19 the instrument plus expenses and loss of interest incurred as a result of
 20 the breach.

21 (c) The warranties stated in subsection (a) cannot be disclaimed
 22 with respect to checks. Unless notice of a claim for breach of warranty
 23 is given to the warrantor within thirty (30) days after the claimant has
 24 reason to know of the breach and the identity of the warrantor, the
 25 liability of the warrantor under subsection (b) is discharged to the
 26 extent of any loss caused by the delay in giving notice of the claim.

27 (d) A cause of action for breach of warranty under this section
 28 accrues when the claimant has reason to know of the breach.

29 SECTION 10. IC 26-1-3.1-417 IS AMENDED TO READ AS
 30 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 417. (a) If an
 31 unaccepted draft is presented to the drawee for payment or acceptance
 32 and the drawee pays or accepts the draft (i) the person obtaining
 33 payment or acceptance, at the time of presentment, and (ii) a previous
 34 transferor of the draft, at the time of transfer, warrant to the drawee
 35 making payment or accepting the draft in good faith that:

- 36 (1) the warrantor is, or was, at the time the warrantor transferred
- 37 the draft, a person entitled to enforce the draft or authorized to
- 38 obtain payment or acceptance of the draft on behalf of a person
- 39 entitled to enforce the draft;
- 40 (2) the draft has not been altered; ~~and~~
- 41 (3) the warrantor has no knowledge that the signature of the
- 42 drawer of the draft is unauthorized; **and**

43 **(4) with respect to a remotely-created consumer item, the**
 44 **person on whose account the item is drawn authorized the**
 45 **issuance of the item in the amount for which the item is**
 46 **drawn.**

47 (b) A drawee making payment may recover from any warrantor
 48 damages for breach of warranty equal to the amount paid by the drawee
 49 less the amount the drawee received or is entitled to receive from the
 50 drawer because of the payment. In addition, the drawee is entitled to
 51 compensation for expenses and loss of interest resulting from the

breach. The right of the drawee to recover damages under this subsection is not affected by any failure of the drawee to exercise ordinary care in making payment. If the drawee accepts the draft, breach of warranty is a defense to the obligation of the acceptor. If the acceptor makes payment with respect to the draft, the acceptor is entitled to recover from any warrantor for breach of warranty the amounts stated in this subsection.

(c) If a drawee asserts a claim for breach of warranty under subsection (a) based on an unauthorized endorsement of the draft or an alteration of the draft, the warrantor may defend by proving that the endorsement is effective under IC 26-1-3.1-404 or IC 26-1-3.1-405 or the drawer is precluded under IC 26-1-3.1-406 or IC 26-1-4-406 from asserting against the drawee the unauthorized endorsement or alteration.

(d) If (i) a dishonored draft is presented for payment to the drawer or an endorser or (ii) any other instrument is presented for payment to a party obliged to pay the instrument, and (iii) payment is received, the following rules apply:

(1) The person obtaining payment and a prior transferor of the instrument warrant to the person making payment in good faith that the warrantor is, or was, at the time the warrantor transferred the instrument, a person entitled to enforce the instrument or authorized to obtain payment on behalf of a person entitled to enforce the instrument.

(2) The person making payment may recover from any warrantor for breach of warranty an amount equal to the amount paid plus expenses and loss of interest resulting from the breach.

(e) The warranties stated in subsections (a) and (d) cannot be disclaimed with respect to checks. Unless notice of a claim for breach of warranty is given to the warrantor within thirty (30) days after the claimant has reason to know of the breach and the identity of the warrantor, the liability of the warrantor under subsection (b) or (d) is discharged to the extent of any loss caused by the delay in giving notice of the claim.

(f) A cause of action for breach of warranty under this section accrues when the claimant has reason to know of the breach.

SECTION 11. IC 26-1-3.1-419 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 419. (a) If an instrument is issued for value given for the benefit of a party to the instrument ("accommodated party") and another party to the instrument ("accommodation party") signs the instrument for the purpose of incurring liability on the instrument without being a direct beneficiary of the value given for the instrument, the instrument is signed by the accommodation party "for accommodation".

(b) An accommodation party may sign the instrument as maker, drawer, acceptor, or endorser and, subject to subsection (d), is obliged to pay the instrument in the capacity in which the accommodation party signs. The obligation of an accommodation party may be enforced notwithstanding any statute of frauds and whether or not the accommodation party receives consideration for the accommodation.

(c) A person signing an instrument is presumed to be an

accommodation party and there is notice that the instrument is signed for accommodation if the signature is an anomalous endorsement or is accompanied by words indicating that the signer is acting as surety or guarantor with respect to the obligation of another party to the instrument. Except as provided in IC 26-1-3.1-605, the obligation of an accommodation party to pay the instrument is not affected by the fact that the person enforcing the obligation had notice when the instrument was taken by that person that the accommodation party signed the instrument for accommodation.

(d) If the signature of a party to an instrument is accompanied by words indicating unambiguously that the party is guaranteeing collection rather than payment of the obligation of another party to the instrument, the signer is obliged to pay the amount due on the instrument to a person entitled to enforce the instrument only if:

- (1) execution of judgment against the other party has been returned unsatisfied;
- (2) the other party is insolvent or in an insolvency proceeding;
- (3) the other party cannot be served with process; or
- (4) it is otherwise apparent that payment cannot be obtained from the other party.

(e) If the signature of a party to an instrument is accompanied by words indicating that the party guarantees payment or the signer signs the instrument as an accommodation party in some other manner that does not unambiguously indicate an intention to guarantee collection rather than payment, the signer is obliged to pay the amount due on the instrument to a person entitled to enforce the instrument in the same circumstances as the accommodated party would be obliged, without prior resort to the accommodated party by the person entitled to enforce the instrument.

~~(f)~~ (f) An accommodation party who pays the instrument is entitled to reimbursement from the accommodated party and is entitled to enforce the instrument against the accommodated party. **In proper circumstances, an accommodation party may obtain relief that requires the accommodated party to perform its obligations on the instrument.** An accommodated party who that pays the instrument has no right of recourse against, and is not entitled to contribution from, an accommodation party.

SECTION 12. IC 26-1-3.1-602 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 602. (a) Subject to subsection ~~(b)~~; **(e)**, an instrument is paid to the extent payment is made:

- (1) by or on behalf of a party obliged to pay the instrument; and
- (2) to a person entitled to enforce the instrument.

(b) Subject to subsection (e), a note is paid to the extent payment is made by or on behalf of a party obliged to pay the note to a person that formerly was entitled to enforce the note only if at the time of the payment the party obliged to pay has not received adequate notification that the note has been transferred and that payment is to be made to the transferee. A notification is adequate only if it is signed by the transferor or the transferee, reasonably identifies the transferred note, and provides an address at which

1 payments subsequently are to be made. Upon request, a transferee
 2 shall seasonably furnish reasonable proof that the note has been
 3 transferred. Unless the transferee complies with the request, a
 4 payment to the person that formerly was entitled to enforce the
 5 note is effective for purposes of subsection (c) even if the party
 6 obliged to pay the note has received a notification under this
 7 subsection.

8 (c) Subject to subsection (e), to the extent of the a payment is
 9 made under subsections (a) and (b), the obligation of the party
 10 obliged to pay the instrument is discharged even though payment is
 11 made with knowledge of a claim to the instrument under
 12 IC 26-1-3.1-306 by another person.

13 (d) Subject to subsection (e), a transferee, or any party that has
 14 acquired rights in the instrument directly or indirectly from a
 15 transferee, including any such party that has rights as a holder in
 16 due course, is considered to have notice of any payment that is
 17 made under subsection (b) after the date that the note is
 18 transferred to the transferee but before the party obliged to pay
 19 the note receives adequate notification of the transfer.

20 ~~(b)~~ (e) The obligation of a party to pay the instrument is not
 21 discharged under ~~subsection~~ subsections (a) through (d) if:

22 (1) a claim to the instrument under IC 26-1-3.1-306 is enforceable
 23 against the party receiving payment and (i) payment is made with
 24 knowledge by the payor that payment is prohibited by injunction
 25 or similar process of a court of competent jurisdiction, or (ii) in
 26 the case of an instrument other than a cashier's check, teller's
 27 check, or certified check, the party making payment accepted,
 28 from the person having a claim to the instrument, indemnity
 29 against loss resulting from refusal to pay the person entitled to
 30 enforce the instrument; or

31 (2) the person making payment knows that the instrument is a
 32 stolen instrument and pays a person it knows is in wrongful
 33 possession of the instrument.

34 (f) As used in this section, "signed", with respect to a record
 35 that is not a writing, includes the attachment to or logical
 36 association with the record of an electronic symbol, sound, or
 37 process with the present intent to adopt or accept the record.

38 SECTION 13. IC 26-1-3.1-604 IS AMENDED TO READ AS
 39 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 604. (a) A person
 40 entitled to enforce an instrument, with or without consideration, may
 41 discharge the obligation of a party to pay the instrument:

42 (1) by an intentional voluntary act, such as surrender of the
 43 instrument to the party, destruction, mutilation, or cancellation of
 44 the instrument, cancellation or striking out of the party's signature,
 45 or the addition of words to the instrument indicating discharge; or
 46 (2) by agreeing not to sue or otherwise renouncing rights against
 47 the party by a signed ~~writing~~ record.

48 (b) Cancellation or striking out of an endorsement under subsection
 49 (a) does not affect the status and rights of a party derived from the
 50 endorsement.

51 (c) As used in this section, "signed", with respect to a record

1 that is not a writing, includes the attachment to or logical
 2 association with the record of an electronic symbol, sound, or
 3 process with the present intent to adopt or accept the record.

4 SECTION 14. IC 26-1-3.1-605 IS AMENDED TO READ AS
 5 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 605. (a) In this section;
 6 the term "endorser" includes a drawer having the obligation described
 7 in IC 26-1-3.1-414(d).

8 (b) Discharge, under IC 26-1-3.1-604, of the obligation of a party to
 9 pay an instrument does not discharge the obligation of an endorser or
 10 accommodation party having a right of recourse against the discharged
 11 party.

12 (c) (a) If a person entitled to enforce an instrument agrees, with or
 13 without consideration, to an extension of the due date of the obligation
 14 of a party to pay the instrument, the extension discharges an endorser
 15 or accommodation party having a right of recourse against the party
 16 whose obligation is extended to the extent the endorser or
 17 accommodation party proves that the extension caused loss to the
 18 endorser or accommodation party with respect to the right of recourse.

19 (d) If a person entitled to enforce an instrument agrees, with or
 20 without consideration, to a material modification of the obligation of
 21 a party other than an extension of the due date, the modification
 22 discharges the obligation of an endorser or accommodation party
 23 having a right of recourse against the person whose obligation is
 24 modified to the extent the modification causes loss to the endorser or
 25 accommodation party with respect to the right of recourse. The loss
 26 suffered by the endorser or accommodation party as a result of the
 27 modification is equal to the amount of the right of recourse unless the
 28 person enforcing the instrument proves that no loss was caused by the
 29 modification or that the loss caused by the modification was an amount
 30 less than the amount of the right of recourse.

31 (e) If the obligation of a party to pay an instrument is secured by an
 32 interest in collateral and a person entitled to enforce the instrument
 33 impairs the value of the interest in collateral, the obligation of an
 34 endorser or accommodation party having a right of recourse against the
 35 obligor is discharged to the extent of the impairment. The value of an
 36 interest in collateral is impaired to the extent:

- 37 (1) the value of the interest is reduced to an amount less than the
- 38 amount of the right of recourse of the party asserting discharge;
- 39 or
- 40 (2) the reduction in value of the interest causes an increase in the
- 41 amount by which the amount of the right of recourse exceeds the
- 42 value of the interest.

43 The burden of proving impairment is on the party asserting discharge.

44 (f) If the obligation of a party is secured by an interest in collateral
 45 not provided by an accommodation party and a person entitled to
 46 enforce the instrument impairs the value of the interest in collateral, the
 47 obligation of any party who is jointly and severally liable with respect
 48 to the secured obligation is discharged to the extent the impairment
 49 causes the party asserting discharge to pay more than that party would
 50 have been obliged to pay, taking into account rights of contribution; if
 51 impairment had not occurred. If the party asserting discharge is an

accommodation party not entitled to discharge under subsection (e); the party is considered to have a right to contribution based on joint and several liability rather than a right to reimbursement. The burden of proving impairment is on the party asserting discharge.

(g) Under subsection (e) or (f), impairing value of an interest in collateral includes:

- (1) failure to obtain or maintain perfection or recordation of the interest in collateral;
- (2) release of collateral without substitution of collateral of equal value;
- (3) failure to perform a duty to preserve the value of collateral owed, under IC 26-1-9-1 or other law, to a debtor or surety or other person secondarily liable; or
- (4) failure to comply with applicable law in disposing of collateral.

(h) An accommodation party is not discharged under subsection (c), (d), or (e) unless the person entitled to enforce the instrument knows of the accommodation or has notice under IC 26-1-3.1-419(c) that the instrument was signed for accommodation.

(i) A party is not discharged under this section if:

- (1) the party asserting discharge consents to the event or conduct that is the basis of the discharge; or
- (2) the instrument or a separate agreement of the party provides for waiver of discharge under this section either specifically or by general language indicating that parties waive defenses based on suretyship or impairment of collateral.

releases the obligation of a principal obligor in whole or in part, and another party to the instrument is a secondary obligor with respect to the obligation of that principal obligor, the following rules apply:

- (1) Any obligations of the principal obligor to the secondary obligor with respect to any previous payment by the secondary obligor are not affected. Unless the terms of the release preserve the secondary obligor's recourse, the principal obligor is discharged, to the extent of the release, from any other duties to the secondary obligor under this article.**
- (2) Unless the terms of the release provide that the person entitled to enforce the instrument retains the right to enforce the instrument against the secondary obligor, the secondary obligor is discharged to the same extent as the principal obligor from any unperformed part of its obligation on the instrument. If the instrument is a check and the obligation of the secondary obligor is based on an endorsement of the check, the secondary obligor is discharged without regard to the language or circumstances of the discharge or other release.**
- (3) If the secondary obligor is not discharged under subdivision (2), the secondary obligor is discharged to the extent of the value of the consideration for the release, and to the extent that the release would otherwise cause the**

secondary obligor a loss.

(b) If a person entitled to enforce an instrument grants a principal obligor an extension of the time at which one (1) or more payments are due on the instrument, and another party to the instrument is a secondary obligor with respect to the obligation of that principal obligor, the following rules apply:

(1) Any obligations of the principal obligor to the secondary obligor with respect to any previous payment by the secondary obligor are not affected. Unless the terms of the extension preserve the secondary obligor's recourse, the extension correspondingly extends the time for performance of any other duties owed to the secondary obligor by the principal obligor under this article.

(2) The secondary obligor is discharged to the extent that the extension would otherwise cause the secondary obligor a loss.

(3) To the extent that the secondary obligor is not discharged under subdivision (2), the secondary obligor may perform its obligations to a person entitled to enforce the instrument as if the time for payment had not been extended or, unless the terms of the extension provide that the person entitled to enforce the instrument retains the right to enforce the instrument against the secondary obligor as if the time for payment had not been extended, may treat the time for performance of its obligations as having been extended correspondingly.

(c) If a person entitled to enforce an instrument agrees, with or without consideration, to a modification of the obligation of a principal obligor other than a complete or partial release or an extension of the due date, and another party to the instrument is a secondary obligor with respect to the obligation of that principal obligor, the following rules apply:

(1) Any obligations of the principal obligor to the secondary obligor with respect to any previous payment by the secondary obligor are not affected. The modification correspondingly modifies any other duties owed to the secondary obligor by the principal obligor under this article.

(2) The secondary obligor is discharged from any unperformed part of its obligation to the extent that the modification would otherwise cause the secondary obligor a loss.

(3) To the extent that the secondary obligor is not discharged under subdivision (2), the secondary obligor may satisfy its obligation on the instrument as if the modification had not occurred, or treat its obligation on the instrument as having been modified correspondingly.

(d) If the obligation of a principal obligor is secured by an interest in collateral, another party to the instrument is a secondary obligor with respect to that obligation, and a person entitled to enforce the instrument impairs the value of the interest in collateral, the obligation of the secondary obligor is discharged to the extent of the impairment. The value of an interest in

collateral is impaired to the extent the value of the interest is reduced to an amount less than the amount of the recourse of the secondary obligor, or the reduction in value of the interest causes an increase in the amount by which the amount of the recourse exceeds the value of the interest. For purposes of this subsection, impairing the value of an interest in collateral includes failure to obtain or maintain perfection or recordation of the interest in collateral, release of collateral without substitution of collateral of equal value or equivalent reduction of the underlying obligation, failure to perform a duty to preserve the value of collateral owed, under IC 26-1-9.1 or other law, to a debtor or other person secondarily liable, and failure to comply with applicable law in disposing of or otherwise enforcing the interest in collateral.

(e) A secondary obligor is not discharged under subsection (a)(3), (b), (c), or (d) unless the person entitled to enforce the instrument knows that the person is a secondary obligor or has notice under IC 26-1-3.1-419(c) that the instrument was signed for accommodation.

(f) A secondary obligor is not discharged under this section if the secondary obligor consents to the event or conduct that is the basis of the discharge, or the instrument or a separate agreement of the party provides for waiver of discharge under this section specifically or by general language indicating that parties waive defenses based on suretyship or impairment of collateral. Unless the circumstances indicate otherwise, consent by the principal obligor to an act that would lead to a discharge under this section constitutes consent to that act by the secondary obligor if the secondary obligor controls the principal obligor or deals with the person entitled to enforce the instrument on behalf of the principal obligor.

(g) A release or extension preserves a secondary obligor's recourse if the terms of the release or extension provide that:

- (1) the person entitled to enforce the instrument retains the right to enforce the instrument against the secondary obligor; and
- (2) the recourse of the secondary obligor continues as if the release or extension had not been granted.

(h) Except as otherwise provided in subsection (i), a secondary obligor asserting discharge under this section has the burden of persuasion both with respect to the occurrence of the acts alleged to harm the secondary obligor and loss or prejudice caused by those acts.

(i) If the secondary obligor demonstrates prejudice caused by an impairment of its recourse, and the circumstances of the case indicate that the amount of loss is not reasonably susceptible of calculation or requires proof of facts that are not ascertainable, it is presumed that the act impairing recourse caused a loss or impairment equal to the liability of the secondary obligor on the instrument. In that event, the burden of persuasion as to any lesser amount of the loss is on the person entitled to enforce the instrument.

SECTION 15. IC 26-1-4-104, AS AMENDED BY P.L.143-2007,
SECTION 22, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
JULY 1, 2010]: Sec. 104. (a) In IC 26-1-4, unless the context otherwise
requires:

(1) "Account" means any deposit or credit account with a bank,
including a demand, time, savings, passbook, share draft, or like
account, other than an account evidenced by a certificate of
deposit.

(2) "Afternoon" means the period of a day between noon and
midnight.

(3) "Banking day" means the part of a day on which a bank is
open to the public for carrying on substantially all of its banking
functions, but does not include Saturday, Sunday, or a legal
holiday.

(4) "Clearing house" means an association of banks or other
payors regularly clearing items.

(5) "Customer" means a person having an account with a bank or
for whom a bank has agreed to collect items, including a bank that
maintains an account at another bank.

(6) "Documentary draft" means a draft to be presented for
acceptance or payment if specified documents, certificated
securities (IC 26-1-8.1-102), or instructions for uncertificated
securities (IC 26-1-8.1-102) or other certificates, statements, or
the like are to be received by the drawee or other payor before
acceptance or payment of the draft.

(7) "Draft" means a draft (as defined in IC 26-1-3.1-104) or an
item, other than an instrument, that is an order.

(8) "Drawee" means a person ordered in a draft to make payment.

(9) **"Good faith" means honesty in fact in the conduct or
transaction concerned.**

(10) "Item" means an instrument or a promise or order to pay
money handled by a bank for collection or payment. The term
does not include a payment order governed by IC 26-1-4.1 or a
credit or debit card slip.

~~(10)~~ (11) "Midnight deadline" with respect to a bank is midnight
on its next banking day following the banking day on which it
receives the relevant item or notice or from which the time for
taking action commences to run, whichever is later.

~~(11)~~ (12) "Settle" means to pay in cash, by clearing-house
settlement, in a charge or credit, or by remittance, or otherwise as
instructed. A settlement may be either provisional or final.

~~(12)~~ (13) "Suspends payments" with respect to a bank means that
it has been closed by order of the supervisory authorities, that a
public officer has been appointed to take it over, or that it ceases
or refuses to make payments in the ordinary course of business.

(b) Other definitions applying to IC 26-1-4 and the sections in which
they appear are:

"Agreement for electronic presentment". IC 26-1-4-110.

"Bank". IC 26-1-4-105.

"Collecting bank". IC 26-1-4-105.

"Depository bank". IC 26-1-4-105.

- 1 "Intermediary bank". IC 26-1-4-105.
 2 "Payor bank". IC 26-1-4-105.
 3 "Presenting bank". IC 26-1-4-105.
 4 "Presentment notice". IC 26-1-4-110.
 5 (c) "Control" as provided in IC 26-1-7-106 and the following
 6 definitions in IC 26-1-3.1 apply to IC 26-1-4:
 7 "Acceptance". IC 26-1-3.1-409.
 8 "Alteration". IC 26-1-3.1-407.
 9 "Cashier's check". IC 26-1-3.1-104.
 10 "Certificate of deposit". IC 26-1-3.1-104.
 11 "Certified check". IC 26-1-3.1-409.
 12 "Check". IC 26-1-3.1-104.
 13 "Holder in due course". IC 26-1-3.1-302.
 14 "Instrument". IC 26-1-3.1-104.
 15 "Notice of dishonor". IC 26-1-3.1-503.
 16 "Order". IC 26-1-3.1-103.
 17 "Ordinary care". IC 26-1-3.1-103.
 18 "Person entitled to enforce". IC 26-1-3.1-301.
 19 "Presentment". IC 26-1-3.1-501.
 20 "Promise". IC 26-1-3.1-103.
 21 "Prove". IC 26-1-3.1-103.
 22 **"Record". IC 26-1-1-201(33b).**
 23 **"Remotely-created consumer item". IC 26-1-3.1-103.**
 24 "Teller's check". IC 26-1-3.1-104.
 25 "Unauthorized signature". IC 26-1-3.1-403.
 26 (d) In addition, IC 26-1-1 contains general definitions and principles
 27 of construction and interpretation applicable throughout IC 26-1-4.
 28 SECTION 16. IC 26-1-4-207 IS AMENDED TO READ AS
 29 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 207. (a) A customer or
 30 collecting bank that transfers an item and receives a settlement or other
 31 consideration warrants to the transferee and to any subsequent
 32 collecting bank that:
 33 (1) the warrantor is a person entitled to enforce the item;
 34 (2) all signatures on the item are authentic and authorized;
 35 (3) the item has not been altered;
 36 (4) the item is not subject to a defense or claim in recoupment
 37 (IC 26-1-3.1-305(a)) of any party that can be asserted against the
 38 warrantor; ~~and~~
 39 (5) the warrantor has no knowledge of any insolvency proceeding
 40 commenced with respect to the maker or acceptor or, in the case
 41 of an unaccepted draft, the drawer; **and**
 42 **(6) with respect to a remotely-created consumer item, the**
 43 **person on whose account the item is drawn authorized the**
 44 **issuance of the item in the amount for which the item is**
 45 **drawn.**
 46 (b) If an item is dishonored, a customer or collecting bank
 47 transferring the item and receiving settlement or other consideration is
 48 obliged to pay the amount due on the item:
 49 (1) according to the terms of the item at the time it was
 50 transferred; or
 51 (2) if the transfer was of an incomplete item, according to its

terms when completed as stated in IC 26-1-3.1-115 and IC 26-1-3.1-407.

The obligation of a transferor is owed to the transferee and to any subsequent collecting bank that takes the item in good faith. A transferor cannot disclaim its obligation under this subsection by an endorsement stating that it is made "without recourse" or otherwise disclaiming liability.

(c) A person to whom the warranties under subsection (a) are made and who took the item in good faith may recover from the warrantor as damages for breach of warranty an amount equal to the loss suffered as a result of the breach, but not more than the amount of the item plus expenses and loss of interest incurred as a result of the breach.

(d) The warranties stated in subsection (a) cannot be disclaimed with respect to checks. Unless notice of a claim for breach of warranty is given to the warrantor within thirty (30) days after the claimant has reason to know of the breach and the identity of the warrantor, the warrantor is discharged to the extent of any loss caused by the delay in giving notice of the claim.

(e) A cause of action for breach of warranty under this section accrues when the claimant has reason to know of the breach.

SECTION 17. IC 26-1-4-208 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 208. (a) If an unaccepted draft is presented to the drawee for payment or acceptance and the drawee pays or accepts the draft, (i) the person obtaining payment or acceptance, at the time of presentment, and (ii) a previous transferor of the draft, at the time of transfer, warrant to the drawee that pays or accepts the draft in good faith that:

(1) the warrantor is, or was, at the time the warrantor transferred the draft, a person entitled to enforce the draft or authorized to obtain payment or acceptance of the draft on behalf of a person entitled to enforce the draft;

(2) the draft has not been altered; ~~and~~

(3) the warrantor has no knowledge that the signature of the purported drawer of the draft is unauthorized; ~~and~~

(4) with respect to a remotely-created consumer item, the person on whose account the item is drawn authorized the issuance of the item in the amount for which the item is drawn.

(b) A drawee making payment may recover from a warrantor damages for breach of warranty equal to the amount paid by the drawee less the amount the drawee received or is entitled to receive from the drawer because of the payment. In addition, the drawee is entitled to compensation for expenses and loss of interest resulting from the breach. The right of the drawee to recover damages under this subsection is not affected by any failure of the drawee to exercise ordinary care in making payment. If the drawee accepts the draft:

(1) breach of warranty is a defense to the obligation of the acceptor; and

(2) if the acceptor makes payment with respect to the draft, the acceptor is entitled to recover from a warrantor for breach of warranty the amounts stated in this subsection.

(c) If a drawee asserts a claim for breach of warranty under subsection (a) based on an unauthorized endorsement of the draft or an alteration of the draft, the warrantor may defend by proving that the endorsement is effective under IC 26-1-3.1-404 or IC 26-1-3.1-405 or the drawer is precluded under IC 26-1-3.1-406 or IC 26-1-4-406 from asserting against the drawee the unauthorized endorsement or alteration.

(d) If:

(1) a dishonored draft is presented for payment to the drawer or an endorser; or

(2) any other item is presented for payment to a party obliged to pay the item;

and the item is paid, the person obtaining payment and a prior transferor of the item warrant to the person making payment in good faith that the warrantor is, or was, at the time the warrantor transferred the item, a person entitled to enforce the item or authorized to obtain payment on behalf of a person entitled to enforce the item. The person making payment may recover from any warrantor for breach of warranty an amount equal to the amount paid plus expenses and loss of interest resulting from the breach.

(e) The warranties stated in subsections (a) and (d) cannot be disclaimed with respect to checks. Unless notice of a claim for breach of warranty is given to the warrantor within thirty (30) days after the claimant has reason to know of the breach and the identity of the warrantor, the warrantor is discharged to the extent of any loss caused by the delay in giving notice of the claim.

(f) A cause of action for breach of warranty under this section accrues when the claimant has reason to know of the breach.

SECTION 18. IC 26-1-4-212 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 212. (a) Unless otherwise instructed, a collecting bank may present an item not payable by, through, or at a bank by sending to the party to accept or pay a **written record providing** notice that the bank holds the item for acceptance or payment. The notice must be sent in time to be received on or before the day when presentment is due and the bank must meet any requirement of the party to accept or pay under IC 26-1-3.1-501 by the close of the bank's next banking day after it knows of the requirement.

(b) If presentment is made by notice and payment, acceptance, or request for compliance with a requirement under IC 26-1-3.1-501 is not received by the close of business on the day after maturity or, in the case of demand items, by the close of business on the third banking day after notice was sent, the presenting bank may treat the item as dishonored and charge any drawer or endorser by sending it notice of the facts.

SECTION 19. IC 26-1-4-301 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. ~~31~~ **301**. (a) If a payor bank settles for a demand item other than a documentary draft presented otherwise than for immediate payment over the counter before midnight of the banking day of receipt, the payor bank may revoke the settlement and recover the settlement if, before it has made

1 final payment and before its midnight deadline, it:

2 (1) returns the item; ~~or~~

3 **(2) returns an image of the item, if the party to which the**
 4 **return is made has entered into an agreement to accept an**
 5 **image as a return of the item and the image is returned in**
 6 **accordance with that agreement; or**

7 ~~(2)~~ **(3) sends written a record providing** notice of dishonor or
 8 nonpayment if the item is unavailable for return.

9 (b) If a demand item is received by a payor bank for credit on its
 10 books, it may return the item or send notice of dishonor and may
 11 revoke any credit given or recover the amount thereof withdrawn by its
 12 customer, if it acts within the time limit and in the manner specified in
 13 subsection (a).

14 (c) Unless previous notice of dishonor has been sent, an item is
 15 dishonored at the time when for purposes of dishonor it is returned or
 16 notice sent in accordance with this section.

17 (d) An item is returned:

18 (1) as to an item received through a clearing-house, when it is
 19 delivered to the presenting or last collecting bank or to the
 20 clearing-house or is sent or delivered in accordance with its rules;
 21 or

22 (2) in all other cases, when it is sent or delivered to the bank's
 23 customer or transferor or pursuant to instructions.

24 SECTION 20. IC 26-1-4-403 IS AMENDED TO READ AS
 25 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 403. (a) A customer or
 26 any person authorized to draw on the account if there is more than one
 27 (1) person may stop payment of any item drawn on the customer's
 28 account or close the account by an order to the bank describing the
 29 item or account with reasonable certainty received at a time and in a
 30 manner that affords the bank a reasonable opportunity to act on it
 31 before any action by the bank with respect to the item described in
 32 IC 26-1-4-303. If the signature of more than one (1) person is required
 33 to draw on an account, any of these persons may stop payment or close
 34 the account.

35 (b) A stop-payment order is effective for six (6) months, but it
 36 lapses after fourteen (14) calendar days if the original order was oral
 37 and was not confirmed in ~~writing~~ **a record** within that period. A
 38 stop-payment order may be renewed for additional six (6) month
 39 periods by a ~~writing~~ **record** given to the bank within a period during
 40 which the stop-payment order is effective.

41 (c) The burden of establishing the fact and amount of loss resulting
 42 from the payment of an item contrary to a stop-payment order or order
 43 to close an account is on the customer. The loss from payment of an
 44 item contrary to a stop-payment order may include damages for
 45 dishonor of subsequent items under IC 26-1-4-402.

(Reference is to ESB 501 as reprinted April 15, 2009.)

Conference Committee Report
on
Engrossed Senate Bill 501

Signed by:

Senator Paul
Chairperson

Representative Lawson L

Senator Simpson

Representative Clere

Senate Conferees

House Conferees